



This is the fourth communication that the Department of Industrial Accidents (DIA) has issued. This issue deals with an algorithm developed to assist the insurance community's understand the components included in the DIA's definition of standard premium.

Background

The Workers' Compensation Special Fund (hereinafter, "the Special Fund") and the Workers' Compensation Trust Fund (hereinafter, "the Trust Fund") were established to pay for the operating expenses of the Massachusetts Department of Industrial Accidents and to pay or reimburse certain compensation to employees and insurance companies specifically outlined in Section 65. Both the Special Fund and the Trust Fund are funded by revenues generated from assessments levied on all insured employers subject to M.G.L. c.152.

According to the statute, insurance companies shall bill and collect assessments on insured employers. Such assessments shall be separately stated amounts on premium notices, and shall not be reported as premiums for any tax or regulatory purposes under Chapter sixty-three, one hundred and seventy-five, or any other law.

Assessment rates for insured employers should apply to standard premiums for policy years beginning on or after July first following the determination of such rates.

In an earlier communication the DIA expressed the opinion that, "All insurance companies are expected to be familiar with the insurance laws of each state, in which they operate." Commissioner John Chapman added "The DIA anticipates that these communications as well as the DIA's web-site and Assessment web page at www.mass.gov/dia will be informational tools that help insurance companies understand their obligations."



Deputy Commissioner Jack Tynan indicated that "In the past few years, the DIA has been auditing the insurance companies to ensure that assessments are being billed and remitted in accordance with state statutes". Mr. Tynan continued, "The DIA has hired a full time Assessment Manager who has 25 years of industry experience. He is the point of contact for all insurance companies writing Workers Compensation in Massachusetts. The DIA plans to continue audits into the future, similar to IRS corporate audits."

Standard Workers' Compensation Premium

The DIA acknowledges that in the past, there has been confusion in the insurance industry regarding the handling of deviated rates related to the DIA's definition of standard premium, but the confusion was eliminated in 1997 when Circular Letter 1778 was issued by the Workers' Compensation Rating and Inspection Bureau of Massachusetts (WCRIBMA).

As stated in 452 CMR 7.00, standard premium shall mean the direct written premium equal to the product of payroll by class code and the currently applicable manual rates multiplied by any applicable experience modification factor.

This definition is found in the above mentioned DIA web-site within the Department of Industrial Accidents Insurers' Page in the section labeled 452 CMR 1.00-8.00 Rules and Regulations of the DIA.

The initial audit results confirm that confusion had existed in the insurance community regarding the definition of standard premium. Deputy Commissioner and General Counsel, Gregory White indicated "the audits highlighted this and the DIA was aware of this when dealing with insurers regarding the initial audit findings. Since that time, and continuing with the new round of audits the DIA will work with other state agencies and will vigorously pursue those insurance companies that are not

billing and remitting assessments correctly. Insurers will find that the DIA will take the necessary legal steps in order to recover these funds and impose penalties for acting in such an irresponsible manner."



Algorithm

As noted in the first paragraph, an algorithm has been developed in conjunction with several insurance companies, the WCRIB and Massachusetts Division of Insurance.

The DIA held a meeting at its headquarters on September 20, 2005 with representatives of the Insurance community, WCRIB and Massachusetts Division of

Insurance (DOI) came together to agree on the algorithm.

The objective of this venture was to finalize a web based algorithm, to serve as a tool for insurers to remove the confusion that exists regarding the DIA's definition of standard premium. The algorithm defining the DIA's definition of standard premium is located on the DIA's assessment web page. Links are being built from WCRIB web-site to the DIA's assessment web-site.

The Working Group

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"For those insurance companies which have ignored the statute's definition of standard premium, that action poses a threat to the financial well being of the DIA and the customers it serves." Deputy Commissioner White said. "All insurance companies operating in Massachusetts have a legal obligation to properly and accurately assess their customers when preparing the premium notice".

While commenting on the algorithm, Mr. White indicated he was pleased with the insurance

community's participation and response, but added "insurance companies must fulfill their obligations and comply with state laws to minimize the impact on the DIA and those that depend upon the DIA's services. The correct calculation, collection and timely payment of the assessment to the DIA, is a critical component."

DIA Contact information

Assessment Manager James Boyle has been designated as the point of contact for insurance companies at the DIA. All questions or comments regarding the assessment process should be directed to him.

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